

# Endeavour Mining

## Pre-positioning ahead of rains

Q222 results preview

Metals and mining

Endeavour's Q222 results are scheduled for release on 3 August. As at the quarter's end, we have revised our financial forecasts for the company for FY22 to reflect a slightly higher gold price for the quarter (US\$1,873/oz cf US\$1,866/oz previously), a slightly lower gold price for the remainder of the year (US\$1,812/oz cf US\$1,823/oz previously), and a slightly higher proportion of material processed from lower-grade stockpiles in Q2 as operations have focused on waste stripping ahead of the rainy season in Q3 at Boungou, Sabodala-Massawa and Wahgnion, in particular. In the meantime, Endeavour is trading at a 27% discount to the average multiples of its peers, which imply a share price of US\$28.66 (C\$36.97 or £23.70).

Year end	Revenue (US\$m)	EBITDA (US\$m)	PBT* (US\$m)	Operating cash flow per share (US\$)	DPS (c)	Yield (%)
12/20	1,847.9	910.3	501.2	5.35	37	1.8
12/21	2,903.8	1,517.3	756.5	4.83	56	2.7
12/22e	2,492.1	1,347.5	689.3	4.86	62	3.0
12/23e	2,219.0	1,223.2	762.7	3.86	70	3.4

Note: \*PBT is normalised, excluding amortisation of acquired intangibles and exceptional items.

## Changes to financial forecasts immaterial

As a result of the changes to our assumptions, we have reduced our production forecasts for Q222 by 9.3koz at Boungou, 10.5koz at Sabodala-Massawa and 5.3koz at Wahgnion and by 25.1koz (or 7.3%) for the group as a whole in Q222. For the full year, this equates to a 1.3% reduction in our production forecast to 1,358.8koz, which is close to the middle of the company's range of guidance for FY22 of 1,315–1,400koz, at an all-in sustaining cost in the range US\$880–930/oz. However, this translates into only a very modest 1.3% reduction in our forecast for net adjusted EPS from continuing operations for the year (full details of our updated forecasts are available overleaf).

## Valuation: Little changed at upwards of US\$28.66

Given that our financial forecasts for FY22 are not much changed, neither is our valuation of Endeavour. Using an absolute valuation methodology, whereby we discount back five years of cash flows and then apply an ex-growth, ad infinitum multiple to steady-state terminal cash flows in FY26, implies a present valuation for the company of US\$35.88 (C\$46.28 or £29.67) per share if performed using a 10% discount rate (cf US\$35.96 previously) or US\$57.64 (C\$74.31 or £47.66) per share if performed using a CAPM-derived (real) discount rate of 6.57% (based on sharply reduced inflation expectations of 2.28% derived from US 30-year break-even rates of 2.53% previously). To these valuations a further US\$4.30–7.45/share may be added to reflect the value of Endeavour's five-year exploration programme (see [The second five-year plan](#), published on 20 October 2021). Otherwise, Endeavour is trading at a discount to the average multiples of its peers on at least 68% of common valuation measures, regardless of whether Edison or consensus forecasts are used, despite its being the largest premium LSE-listed pure gold producer in the FTSE 100 Index.

4 July 2022

Price **1,706p**

Market cap **£4,241m**

C\$1.2899/US\$, US\$1.2095/£

Net cash (US\$m) at end-March 2022, 182.4  
excludes lease liabilities, option premium and restricted cash

Shares in issue 248.4m

Free float 75.2%

Code EDV

Primary exchange LSE

Secondary exchange TSX, USOTC

### Share price performance



% 1m 3m 12m

Abs (9.2) (14.5) 3.4

Rel (local) 4.0 (8.8) 6.6

52-week high/low 2,100p 1,510p

### Business description

Following its acquisitions of SEMAFO and Teranga, Endeavour Mining has become one of the top 10 major gold producers globally, with seven mines in Côte d'Ivoire, Burkina Faso and Senegal plus a portfolio of development projects, all in the West African Birimian greenstone belt.

### Next events

Lafigue DFS Mid-2022

Sabodala-Massawa Phase 2 construction launch Mid-2022

Wona underground production Q322

### Analyst

Lord Ashbourne +44 (0)20 3077 5724

[mining@edisongroup.com](mailto:mining@edisongroup.com)

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## Updated FY22 forecasts

In the wake of the aforementioned changes, our updated forecasts for Endeavour are as follows:

Exhibit 1: Endeavour Mining FY22e forecasts, by quarter									
US\$000s (unless otherwise indicated)	Q122a	Q222e (prior)	Q222e	Q322e (prior)	Q322e	Q422e (prior)	Q422e	FY22e	FY22e (prior)
Houndé production (koz)	73.1	76.4	76.4	68.8	68.8	57.3	57.3	275.5	275.5
Agbaou production (koz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Karma production (koz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ity production (koz)	72.4	67.8	67.8	63.2	63.2	63.2	63.2	266.5	266.5
Boungou production (koz)	33.8	35.3	26.0	29.9	29.9	30.4	30.4	120.1	129.4
Mana production (koz)	52.6	49.3	49.3	40.6	40.6	43.1	43.1	185.6	185.6
Sabodala-Massawa	96.3	85.9	75.4	98.2	98.2	98.2	98.2	368.0	378.5
Wahgnion	28.9	32.8	27.5	33.4	33.4	43.1	43.1	132.9	138.2
Total gold produced (koz)	357.1	347.5	322.3	334.0	334.0	335.1	335.1	**1,358.8	**1,384.0
Total gold sold (koz)	359.1	347.5	322.3	334.0	334.0	335.1	335.1	**1,360.6	**1,385.8
Gold price (US\$/oz)	1,911	1,866	1,873	1,823	1,812	1,823	1,812	1,844	1,848
Mine level cash costs (US\$/oz)*	609	713	722	688	643	699	655	661	681
Mine level AISC (US\$/oz)	809	973	995	933	888	900	855	889	907
Revenue									
– Gold revenue	686,200	645,167	600,831	605,278	601,626	607,151	603,488	2,492,144	2,543,796
Cost of sales									
– Operating expenses	217,500	247,732	232,879	229,786	214,932	234,301	219,448	884,759	929,320
– Royalties	41,000	39,306	36,657	36,641	36,420	36,656	36,434	150,511	153,603
Gross profit	427,700	358,129	331,295	338,851	350,273	336,194	347,605	1,456,874	1,460,874
Depreciation	(152,000)	(151,311)	(136,452)	(152,389)	(152,725)	(160,581)	(160,934)	(602,111)	(616,281)
Expenses									
– Corporate costs	(14,000)	(13,000)	(15,000)	(12,000)	(15,000)	(11,000)	(15,000)	(59,000)	(50,000)
– Impairments	0							0	0
– Acquisition etc costs	(200)							(200)	(200)
– Share based compensation	(7,700)	(6,777)	(6,607)	(6,999)	(6,999)	(6,999)	(6,999)	(28,304)	(28,474)
– Exploration costs	(7,100)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(22,100)	(22,100)
Total expenses	(29,000)	(24,777)	(26,607)	(23,999)	(26,999)	(22,999)	(26,999)	(109,604)	(100,774)
Earnings from operations	246,700	182,041	168,237	162,463	170,550	152,614	159,673	745,159	743,818
Interest income								0	0
Interest expense	(15,200)	(14,373)	(14,373)	(12,726)	(13,036)	(11,156)	(11,411)	(54,019)	(53,455)
Net interest	(15,200)	(14,373)	(14,373)	(12,726)	(13,036)	(11,156)	(11,411)	(54,019)	(53,455)
Loss on financial instruments	(178,800)							(178,800)	(178,800)
Other expenses	(2,000)							(2,000)	(2,000)
Profit before tax	50,700	167,668	153,864	149,737	157,514	141,458	148,262	510,340	509,563
Current income tax	74,700	44,173	42,260	40,387	43,296	38,175	41,079	201,335	197,435
Deferred income tax	11,200	0	0	0	0	0	0	11,200	11,200
Total tax	85,900	44,173	42,260	40,387	43,296	38,175	41,079	212,535	208,635
Effective tax rate (%)	(169.4)	26.3	27.5	27.0	27.5	27.0	27.7	41.6	40.9
Profit after tax	(35,200)	123,495	111,604	109,350	114,218	103,283	107,183	297,805	300,928
Net profit from discontinued ops.	14,800	0	0	0	0	0	0	14,800	14,800
Total net and comprehensive income	(20,400)	123,495	111,604	109,350	114,218	103,283	107,183	312,605	315,728
Minority interest	21,800	18,046	17,580	15,996	17,347	15,086	16,435	73,162	70,928
Minority interest (%)	(106.9)	14.6	15.8	14.6	15.2	14.6	15.3	23.4	22.5
Profit attributable to shareholders	(42,200)	105,449	94,023	93,355	96,872	88,196	90,748	239,443	244,800
Basic EPS from continuing ops (US\$)	(0.23)	0.424	0.378	0.376	0.390	0.355	0.365	0.904	0.926
Diluted EPS from continuing ops (US\$)	(0.23)	0.422	0.376	0.374	0.388	0.353	0.363	0.899	0.921
Basic EPS (US\$)	(0.17)	0.424	0.378	0.376	0.390	0.355	0.365	0.964	0.985
Diluted EPS (US\$)	(0.17)	0.422	0.376	0.374	0.388	0.353	0.363	0.959	0.980
Norm. basic EPS from cont. ops (US\$)	0.49	0.424	0.378	0.376	0.390	0.355	0.365	1.625	1.646
Norm. diluted EPS from cont. ops (US\$)	0.49	0.422	0.376	0.374	0.388	0.353	0.363	1.616	1.638
Adj net earnings attributable (US\$000s)	122,300	105,449	94,023	93,355	96,872	88,196	90,748	403,943	409,300
Adj net EPS from continuing ops (US\$)	0.49	0.424	0.378	0.376	0.390	0.355	0.365	1.626	1.648

Source: Endeavour Mining, Edison Investment Research. Note: \*Excludes royalty costs. \*\*Includes 10.2koz produced and 10.1koz sold from Karma in Q122.

Items included in the reconciliation between adjusted net earnings attributable and total net and comprehensive earnings are losses from discontinued operations, gains/losses on financial instruments, other expenses and acquisition costs (all shown independently in the table above), plus the tax impact of adjusting items, non-cash and other adjustments and the minority interest attributable to the adjusting items (not shown independently). As noted previously, Endeavour has now changed its definition of adjusted net earnings attributable, such that deferred tax effects and share-based payments are no longer included in the adjustments to total net and comprehensive earnings, and this is now the manner in which our FY22 forecasts are presented. Readers are also reminded that Endeavour changed its definition of cash costs in Q420 to include royalties. The decision was made so that Endeavour may be more consistent in reporting in the context of its peer group. For reasons of comparability with past results, however, as well as ease of forecasting (given that royalties are reported as a discreet item distinct from operating expenses), we are continuing to show total cash costs excluding royalties.

Within this context, a comparison between our quarterly and full-year forecast and consensus forecasts for FY22 is as follows:

**Exhibit 2: Edison adjusted net EPS from continuing operations estimates of consensus FY22 by quarter**

(US\$/share)	Q122a	Q222e	Q322e	Q422e	Sum Q1-Q422	FY22e
Edison	0.493	0.378	0.390	0.365	1.626	1.626
Mean consensus forecast	0.49	0.48	0.49	0.53	1.99	1.71
High consensus forecast	0.49	0.92	0.93	0.87	3.21	2.17
Low consensus forecast	0.49	0.33	0.24	0.36	1.42	1.10

Source: Refinitiv, Edison Investment Research. Note: Consensus at 30 June 2022.

Of particular note, within the context of our financial and operating forecasts for the individual quarters, is the absence of any material decline in either production or profitability in Q3 (being the quarter historically most susceptible to disruption from the seasonal rains in West Africa). In this case, however, we are expecting a material increase in production at Sabodala-Massawa in Q322 and H222. Mining activities are expected to continue at the Massawa Central Zone for the remainder of the year along with additional mining at the Sofia North and Sofia Main pits, while mining at the Massawa North Zone is expected to commence mid-year, with non-refractory ore available for immediate treatment in the carbon-in-leach (CIL) plant, while refractory and transitional material is stockpiled. Mined and processed grades are therefore expected to increase materially in H222 compared to Q222.

Self-evidently, one of the principal presumptions behind our forecasts is that there are no major deleterious effects to ongoing operations as a result of the COVID-19 pandemic. We also assume no collateral escalation of war between Russia and Ukraine into West Africa. To date, the effect of COVID-19 on Endeavour's operations in West Africa has been negligible and is expected to remain so, all other things being equal, as the company has now been able to vaccinate more than 50% of its workforce in an ongoing programme of pandemic mitigation. In addition, Endeavour has further mitigated future risks as far as possible by setting itself up to operate under level 2 COVID-19 restrictions (see our note [New senior gold major looking to join FTSE 100](#), published on 17 December 2020) and by preparing multiple different levels in its pits from which to produce, thereby affording it greater operational flexibility in the event of unanticipated future disruptions.

**Exhibit 3: Financial summary**

	US\$'000s	2019	2020	2021	2022e	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		1,362,121	1,847,894	2,903,756	2,492,144	2,218,986	2,235,703
Cost of Sales		(884,869)	(1,061,891)	(1,675,393)	(1,144,874)	(995,810)	(1,007,684)
Gross Profit		477,252	786,003	1,228,363	1,347,270	1,223,175	1,228,019
EBITDA		618,443	910,295	1,517,263	1,347,470	1,223,175	1,228,019
Operating Profit (before amort. and except.)		281,400	546,072	859,409	745,359	758,879	703,822
Exceptionals		(199,159)	(201,532)	(266,000)	(179,000)	0	0
Other		(9,392)	8,886	(32,263)	(2,000)	0	0
Operating Profit		72,849	353,426	561,146	564,359	758,879	703,822
Net Interest		(51,607)	(53,774)	(70,623)	(54,019)	3,839	5,512
Profit Before Tax (norm)		220,401	501,184	756,523	689,340	762,719	709,334
Profit Before Tax (FRS 3)		21,242	299,652	490,523	510,340	762,719	709,334
Tax		(97,253)	(158,466)	(178,253)	(212,535)	(215,584)	(149,307)
Profit After Tax (norm)		123,148	342,718	578,270	476,805	547,135	560,028
Profit After Tax (FRS 3)		(76,011)	141,186	312,270	297,805	547,135	560,028
Net loss from discontinued operations		(4,394)	0	0	14,800	0	0
Minority interests		33,126	44,719	64,486	73,162	89,538	88,053
Net profit		(80,405)	141,186	312,270	312,605	547,135	560,028
Net attrib. to shareholders contg. businesses (norm)		90,022	297,998	513,784	403,643	457,597	471,975
Net attrib. to shareholders contg. businesses		(109,137)	96,466	247,784	224,643	457,597	471,975
Average Number of Shares Outstanding (m)		157.4	160.8	250.7	248.4	248.4	248.4
EPS - normalised (c)		57.20	185.34	204.95	162.48	184.19	189.98
EPS - normalised fully diluted (c)		56.95	181.51	203.21	161.61	183.21	188.97
EPS - (IFRS) (\$)		(0.72)	0.60	0.99	0.96	1.84	1.90
Dividend per share (c)		0	37	56	62	70	82
Gross Margin (%)		35.0	42.5	42.3	54.1	55.1	54.9
EBITDA Margin (%)		45.4	49.3	52.3	54.1	55.1	54.9
Operating Margin (before GW and except.) (%)		20.7	29.6	29.6	29.9	34.2	31.5
<b>BALANCE SHEET</b>							
Fixed Assets		2,330,033	5,093,409	5,404,900	5,315,768	5,443,316	5,537,796
Intangible Assets		5,498	24,851	10,000	10,000	10,000	10,000
Tangible Assets		2,254,476	3,968,746	4,980,200	4,891,068	5,018,616	5,113,096
Investments		70,059	1,099,812	414,700	414,700	414,700	414,700
Current Assets		652,871	1,168,382	1,366,000	1,589,917	1,768,883	2,000,024
Stocks		266,451	305,075	311,300	311,518	277,373	279,463
Debtors		83,836	104,545	139,900	171,656	217,482	218,856
Cash		288,186	751,563	906,200	1,276,943	1,444,227	1,671,905
Other		14,398	7,199	8,600	(170,200)	(170,200)	(170,200)
Current Liabilities		(354,931)	(661,171)	(567,100)	(629,684)	(591,931)	(598,161)
Creditors		(312,427)	(612,862)	(552,700)	(615,284)	(577,531)	(583,761)
Short term borrowings		(42,504)	(48,309)	(14,400)	(14,400)	(14,400)	(14,400)
Long Term Liabilities		(963,736)	(1,647,799)	(1,818,100)	(1,818,100)	(1,818,100)	(1,818,100)
Long term borrowings		(770,902)	(1,026,337)	(878,600)	(878,600)	(878,600)	(878,600)
Other long term liabilities		(192,834)	(621,462)	(939,500)	(939,500)	(939,500)	(939,500)
Net Assets		1,664,237	3,952,821	4,385,700	4,457,901	4,802,169	5,121,559
<b>CASH FLOW</b>							
Operating Cash Flow		628,617	1,046,370	1,415,306	1,407,784	1,173,741	1,230,786
Net Interest		(35,413)	(53,774)	(26,900)	(54,019)	3,839	5,512
Tax		(109,494)	(186,332)	(205,573)	(201,335)	(215,584)	(149,307)
Capex		(401,227)	(335,599)	(587,496)	(512,979)	(591,844)	(618,678)
Acquisitions/disposals		3,654	(19,000)	(4,700)	15,000	5,000	0
Financing		2,402	100,000	(89,400)	(83,773)	0	0
Dividends		(6,154)	(88,288)	(159,800)	(199,934)	(207,867)	(240,637)
Net Cash Flow		82,385	463,377	341,437	370,743	167,284	227,677
Opening net debt/(cash)		518,607	525,220	323,083	(13,200)	(383,943)	(551,227)
Other		(88,998)	(261,240)	(5,154)	0	(0)	0
Closing net debt/(cash)		525,220	323,083	(13,200)	(383,943)	(551,227)	(778,905)

Source: Company sources, Edison Investment Research. Note: Presented on a pro forma basis including SEMAFO from FY18 balance sheet and Teranga from FY20 balance sheet. EPS normalised from FY18 to reflect continuing business only. \*Excludes restricted cash.

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia